

# Armor Holdings Inc.: An Application of The Foreign Corrupt Practices Act

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**Abstract.** The U.S. Foreign Corrupt Practices Act (FCPA) has gained significant popularity in recent years across borders due to the increased investigation and penalties under the law. The following case is a real-life case that highlights the main provisions of the FCPA. Using cases in teaching an auditing or ethics course is much needed to develop students' professional judgment, critical and analytical thinking skills and communication skills. Presently, there are a few cases that address the Foreign Corrupt Practices Act and its effect on financial reporting and auditor responsibilities about illegal acts. The Armor Holdings case is interesting and information is publicly available regarding the circumstances that describe the bribery act, lack of whistle-blower protection, the tone at the top, and the accounting treatment. In addition, the increase in actions brought by the Securities and Exchange Commission (SEC) under the FCPA since 2010 heightens the relevance of this case and underscores the need for students to learn the skills necessary to ensure compliance with FCPA and related key regulations such as the Sarbanes Oxley and the Dodd Frank Act. Therefore, cases like this one provide a rich tool to navigate topics and enforce students' learning of client's illegal actions and their consequences. These skills are invaluable in practice.

**Keywords:** FCPA, illegal acts, corruption, internal controls, tone at the top, compliance, corporate governance, whistleblower protection, gross/net revenue.

## 1. Background<sup>1</sup>

Armor Holdings, Inc. (AH, hereafter) was a manufacturer of military, law enforcement and personnel safety equipment. It was founded in 1969 as American Body Armor and Equipment, Inc. Armor Holdings Inc. was located in Florida and incorporated in Delaware. During the period from 2001 to 2006, it was listed on the New York Stock Exchange. On July 13, 2011, the Securities and Exchange Commission (SEC) filed a civil enforcement action against AH, alleging that from

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1. The facts of the case and its resolution are based on the SEC Litigation Release no. 22037.

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2001 to 2006, agents from AH participated in a bribery scheme, by paying an official of the United Nations (U.N.) to obtain and retain business. Armor Products International, Ltd. (API, hereafter) was a wholly owned, United Kingdom-based subsidiary of Armor Holdings Products, LLC. (AHP, hereafter); AHP was a wholly-owned subsidiary of AH. AHP manufactured and sold military and law enforcement equipment such as body armor and weapons maintenance products. API manufactured and sold protective gear such as ballistic helmets and armored vests. API's financial statements were consolidated with those of AHP, whose financial statements were in turn, consolidated with its parent, AH. According to the Litigation Release No. 22037, AHP conducted a bribery scheme to help API obtain contracts with the U.N. The products exchanged were body armor to be used in U.N. peacekeeping missions. As result of the contracts, AH received revenues over \$7 millions, and generated a net profit of approximately \$1.5 millions.

In July 2007, after the SEC's filing, AH was acquired by BAE Systems, Inc., an American subsidiary of a British company. AH is no longer an issuer of securities.

## **2. The Bribery Scheme**

During 2001, API made corrupt payments to a U.N. procurement official to induce that official to provide non-public information to API so that body armor contracts were granted to API, through a purportedly legitimate third-party intermediary. In September 2001, API submitted a signed blank pricing sheet to the intermediary, which was completed after the bids from competitors were known. The submitted bids were disclosed to the intermediary by a U.N. procurement official. After winning the bid, API was awarded a three-year contract for the supply of body armor. This process was repeated in 2003, with the same intermediary, and API was awarded a contract for another three years.<sup>2</sup> In 2006, API received a one-year extension but this time there was no intermediary intervention. By the end of 2006, API had paid around \$223,000 to the intermediary as a success fee in winning the U.N. contracts. This amount was computed as a percentage of the value of contracts with the U.N. that the intermediary assisted API in obtaining. The transferred money was known to be partially paid to a U.N. procurement official who provided the confidential, non-public bid information to the intermediary which led to API obtaining the U.N. contracts.

In addition, during the period 2001 to 2007, the parent company of API, AHP concealed in its books and accounting records over \$4 million in commissions

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2. Emails between executives at API, AHP and the intermediary showed confirmations and arrangements to repeat the scheme in response to U.N. request for proposals and bids, Department of Justice Criminal Division, July 13, 2011.